

PERAC AUDIT REPORT



Newton Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2007



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances	4
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations	10
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions	11
Note 2 - Significant Accounting Policies	18
Note 3 - Supplementary Membership Regulations.....	19
Note 4 - Administration of the System	21
Note 5 - Actuarial Valuation and Assumptions.....	22
Note 6 - Membership Exhibit.....	23

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

MARY ANN BRADLEY | PAUL V. DOANE | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

JOSEPH E. CONNARTON, *Executive Director*

October 10, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Newton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Martin Feeney and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

Office Space

During the course of the audit, it was observed that records were stored on top of file cabinets and on the floor of the retirement office. It is essential that all records be maintained in an area that ensures they cannot be stolen, misplaced or destroyed. Retirement files must not be co-mingled with other active city department files.

Recommendation: PERAC Memorandum #19/2003 entitled “Privacy and Security of Boards’ Records, Documents and Communications” discusses the need for retirement offices to provide adequate operating space to conduct its daily operations in private. All retirement records should be maintained and stored in a manner that can ensure their proper maintenance and safety. It is recommended that the Board consider the possible use of proximate rooms for additional office space and file storage. The system should review its retention schedule to ensure compliance with the current guidelines issued by the Secretary of State.

Board Response: The City of Newton Building Dept. Commissioner has submitted plans to reconfigure the existing retirement office space. The newly expanded office space will include a private conference room that will allow retirement board staff to counsel members privately and additional filing cabinets will be purchased to accommodate all retirement system records. Renovations began on September 8, 2008 and are scheduled to last approximately 4 weeks.

Administrative Observation

Our previous audit report noted the City of Newton has a disaster recovery plan that addresses procedures for software and financial data recovery. The City has been unable to prioritize the funding necessary to complete the requirements of this plan. This plan does not address the backup hardware and alternate location required to recover data damaged or lost in the event of a disaster of the magnitude contemplated by the plan. Member records must be secured to maintain the integrity of the system. Retirees are dependent on the timely and accurate payment of their benefits. They retain a reasonable expectation for uninterrupted service.

Recommendation: The current disaster recovery plan needs to be revised to address these specific issues. A precise location and designated equipment with appropriate configuration that has the ability to maintain the database and records necessary to continue the essential functions of the retirement system should be explicitly addressed.

The continued inability of the City to provide adequate funding for this plan compels us to implore the Board to consider alternate solutions. We encourage initiating some discussion to develop a regional solution in concert with one or several contiguously located systems. The Board should also consider the advantages of a subscription to a temporary service provider on an emergency back up basis.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response: At a meeting held on September 17, 2008, the Board voted, by a vote of 5-0, to authorize Board Member David Wilkinson to make an inquiry to the Mayor's office as to what the Mayor's intentions are with regard to the Board's August 27, 2008 vote requesting that the Mayor appropriate funds to enhance the existing City of Newton Disaster Recovery Plan by the end of this calendar year. Should the Mayor have no intention of requesting such an appropriation, the Board voted to inform the Mayor that they intend to certify to the City of Newton Board of Assessor's that the necessary funds should be raised on the tax rate for this fiscal year. The Board further authorized Board Member Wilkinson to take whatever action necessary to accomplish this result. Furthermore, since the retirement system pension benefits are issued using the same payroll software system as City employees, PERAC's recommendation to develop a regional solution with other retirement systems would not be possible.

PERAC Response: An Administrative Observation is generally categorized as such because it addresses an issue that exists due to certain structural conditions not directly under the immediate control of the Board or its staff. In this case, the observation addressed the need for the Board to "consider alternate solutions" to implement a disaster recovery plan on its own. However, the payroll function is currently a joint activity between the City and the Retirement Board and therefore the Board determined not to consider such an option. The Board did take action, however, and requested direct City appropriations to address the funding and implementation of the disaster recovery plan. On September 29, 2008, the Mayor requested an appropriation to fund the "purchasing and equipping a back up server for the City's financial systems". As a result, this issue is considered resolved.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2007	2006	2005
Net Assets Available For Benefits:			
Cash	\$2,555,026	\$3,213,691	\$17,845,069
Short Term Investments	0	65	0
Equities	0	0	20,217,105
Pooled Short Term Funds	0	0	545
Pooled Domestic Equity Funds	0	139,559,318	105,234,497
Pooled International Equity Funds	0	36,620,803	29,170,303
Pooled Domestic Fixed Income Funds	0	52,787,765	56,376,557
Pooled Alternative Investment Funds	0	13,366,560	0
Pooled Real Estate Funds	13,924,762	21,229,685	16,494,220
PRIT Cash Fund	200,802	0	0
PRIT Core Fund	270,587,597	0	0
Interest Due and Accrued	0	0	0
Accounts Receivable	378,230	377,912	938,281
Accounts Payable	(29,752)	(209,957)	(353,412)
Total	<u>\$287,616,666</u>	<u>\$266,945,842</u>	<u>\$245,923,166</u>
Fund Balances:			
Annuity Savings Fund	\$66,746,163	\$62,916,727	\$59,016,385
Annuity Reserve Fund	27,200,113	27,704,357	27,950,977
Pension Fund	193,602,053	176,256,671	158,889,908
Military Service Fund	68,337	68,087	65,896
Expense Fund	0	0	0
Total	<u>\$287,616,666</u>	<u>\$266,945,842</u>	<u>\$245,923,166</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Total All Funds
Beginning Balance (2005)	\$58,563,181	\$25,323,645	\$155,516,802	\$56,092	\$0	\$239,459,719
Receipts	6,980,765	793,782	24,820,158	320	1,188,613	33,783,638
Interfund Transfers	(5,186,689)	5,186,474	(9,269)	9,484	0.00	(0)
Disbursements	(1,340,871)	(3,352,924)	(21,437,783)	0	(1,188,613)	(27,320,191)
Ending Balance (2005)	59,016,385	27,950,977	158,889,908	65,896	0	245,923,166
Receipts	7,413,947	832,345	40,132,003	395	1,255,014	49,633,704
Interfund Transfers	(2,579,243)	2,582,458	(5,012)	1,796	0	0
Disbursements	(934,363)	(3,661,424)	(22,760,228)	0	(1,255,014)	(28,611,028)
Ending Balance (2006)	62,916,727	27,704,357	176,256,671	68,087	0	266,945,842
Receipts	7,563,591	817,731	40,393,668	410	1,071,839	49,847,239
Interfund Transfers	(2,420,151)	2,406,306	14,005	(160)	0	0
Disbursements	(1,314,004)	(3,728,281)	(23,062,292)	0	(1,071,839)	(29,176,415)
Ending Balance (2007)	<u>\$66,746,163</u>	<u>\$27,200,113</u>	<u>\$193,602,053</u>	<u>\$68,337</u>	<u>\$0</u>	<u>\$287,616,666</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Members Deductions	\$6,595,528	\$6,258,116	\$5,915,439
Transfers from Other Systems	508,499	663,914	449,380
Member Make Up Payments and Re deposits	50,537	71,762	99,332
Member Payments from Rollovers	42,995	78,107	186,636
Investment Income Credited to Member Accounts	<u>366,032</u>	<u>342,048</u>	<u>329,977</u>
Sub Total	<u>7,563,591</u>	<u>7,413,947</u>	<u>6,980,765</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>817,731</u>	<u>832,345</u>	<u>793,782</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	343,023	270,299	253,552
Pension Fund Appropriation	993,222	1,033,657	1,136,548
Federal Grant Reimbursement	11,577,735	10,654,960	10,292,844
Interest Not Refunded	316,737	239,395	214,253
Excess Investment Income	10,948	6,829	10,677
	<u>27,152,003</u>	<u>27,926,863</u>	<u>12,912,284</u>
Sub Total	<u>40,393,668</u>	<u>40,132,003</u>	<u>24,820,158</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>410</u>	<u>395</u>	<u>320</u>
Sub Total	<u>410</u>	<u>395</u>	<u>320</u>
Expense Fund:			
Expense Fund Appropriation	251,864	222,976	212,454
Investment Income Credited to the Expense Fund	<u>819,975</u>	<u>1,032,038</u>	<u>976,159</u>
Sub Total	<u>1,071,839</u>	<u>1,255,014</u>	<u>1,188,613</u>
Total Receipts	<u>\$49,847,239</u>	<u>\$49,633,704</u>	<u>\$33,783,638</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Refunds to Members	\$765,358	\$454,000	\$555,020
Transfers to Other Systems	<u>548,647</u>	<u>480,363</u>	<u>785,851</u>
Sub Total	<u>1,314,004</u>	<u>934,363</u>	<u>1,340,871</u>
Annuity Reserve Fund:			
Annuities Paid	3,709,070	3,593,423	3,349,988
Option B Refunds	<u>19,211</u>	<u>68,001</u>	<u>2,936</u>
Sub Total	<u>3,728,281</u>	<u>3,661,424</u>	<u>3,352,924</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	15,403,671	14,927,904	14,129,222
Survivorship Payments	1,587,232	1,601,629	1,594,376
Ordinary Disability Payments	185,129	183,984	183,593
Accidental Disability Payments	3,976,038	4,211,838	3,768,145
Accidental Death Payments	1,319,891	1,261,537	1,239,405
Section 101 Benefits	156,787	147,466	143,151
3 (8) (c) Reimbursements to Other Systems	433,544	425,871	379,891
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>23,062,292</u>	<u>22,760,228</u>	<u>21,437,783</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	168,032	158,436	149,764
Travel Expenses	8,872	9,589	7,836
Administrative Expenses	29,644	23,659	29,580
Furniture and Equipment	1,797	1,209	5,976
Management Fees	740,978	903,697	848,179
Custodial Fees	21,481	36,485	37,526
Consultant Fees	54,000	72,000	67,000
Service Contracts	15,358	19,736	12,918
Fiduciary Insurance	<u>16,677</u>	<u>15,202</u>	<u>14,832</u>
Sub Total	<u>1,071,839</u>	<u>1,255,014</u>	<u>1,188,613</u>
Total Disbursements	<u>\$29,176,415</u>	<u>\$28,611,028</u>	<u>\$27,320,191</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Investment Income Received From:			
Cash	\$364,164	\$165,474	\$94,098
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	177,302	173,020
Pooled or Mutual Funds	5,768,955	4,585,673	4,196,087
Commission Recapture	0	0	0
Total Investment Income	<u>6,133,119</u>	<u>4,928,449</u>	<u>4,463,205</u>
Plus:			
Realized Gains	15,344,911	18,729,924	8,516,047
Unrealized Gains	30,091,646	31,140,260	26,734,059
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>45,436,557</u>	<u>49,870,183</u>	<u>35,250,106</u>
Less:			
Realized Loss	(185,841)	(2,223,733)	(1,644,077)
Unrealized Loss	(22,227,684)	(22,441,211)	(23,056,712)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(22,413,526)</u>	<u>(24,664,944)</u>	<u>(24,700,789)</u>
Net Investment Income	<u>29,156,151</u>	<u>30,133,689</u>	<u>15,012,522</u>
Income Required:			
Annuity Savings Fund	366,032	342,048	329,977
Annuity Reserve Fund	817,731	832,345	793,782
Military Service Fund	410	395	320
Expense Fund	819,975	1,032,038	976,159
Total Income Required	<u>2,004,147</u>	<u>2,206,826</u>	<u>2,100,238</u>
Net Investment Income	<u>29,156,151</u>	<u>30,133,689</u>	<u>15,012,522</u>
Less: Total Income Required	<u>2,004,147</u>	<u>2,206,826</u>	<u>2,100,238</u>
Excess Income To The Pension Reserve Fund	<u>\$27,152,003</u>	<u>\$27,926,863</u>	<u>\$12,912,284</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$2,555,026	0.9%	100%
Pooled Real Estate Funds	13,924,762	4.8%	7.50%
PRIT Cash Fund	200,802	0.1%	100%
PRIT Core Fund	<u>270,587,597</u>	<u>94.2%</u>	100%
Grand Total	<u>\$287,268,187</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Newton Retirement System was 10.91%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Newton Retirement System averaged 12.54%. For the twenty-three year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Newton Retirement System was 10.20%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Newton Retirement System voted to adopt the following with regard to the investment policy guidelines:

October 18, 2007

The Newton Retirement System shall adopt the PRIT Core Fund Investment Policy Statement for as long as the Newton Retirement System is a participant of such fund. The Board also recognizes that when the Board voted to invest in the PRIT Core Fund, the Board also voted to retain the systems investment with two real estate limited partnerships, the Cap 15 Fund (W.P. Carey Institutional Properties) and the Fidelity Real Estate Growth Fund II (Fidelity Management Trust Company). The Investment Policy Objectives previously agreed to with W.P. Carey Institutional Properties and Fidelity Management Trust Company shall remain intact until the retirement system is able to divest of these funds without penalty.

The Newton Retirement System submitted the following supplementary investment regulation which was approved by the Public Employee Retirement Administration Commission on:

April 30, 1998

20.07(9) Commingled real estate shall not exceed 10% of the total book value at the time of purchase provided that:

- (a) The retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) Such personnel retain authority in the decision making process, and
- (c) Should an investment in real estate result in direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Newton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Newton Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

April 4, 2001

CETA employment - Only City of Newton employees and members of the Newton Retirement System are eligible to buy back creditable service for Newton CETA employment.

June 1, 1987

Creditable Service - There shall be three designated categories of employees for the City of Newton and the Newton Public Schools:

1. Employees within category one shall be comprised of those persons who are permanent and are regularly employed for a minimum average of 37.5 hours per week, full time status.
 2. Employees within category two shall be comprised of those persons who have only been employed as part time, provisional, temporary or intermittent employees, and who therefore work less than 37.5 hours per week, but at least 20 hours per week.
 3. Employees within category three shall be comprised of those persons who have worked both full time (37.5 hours per week) and part-time (less than 37.5 hours per week but at least 20 hours per week) in their years of employment.
- Employees within category one shall be granted creditable service equal to 12 months for each year of employment.

Employees within category two shall be granted creditable service equal to 12 months for each year of employment if and only if their part time employment equals the total number of hours per week prescribed by the City of Newton or Newton Public Schools for that job title or position.

Employees within category three shall be granted creditable service equal to 12 months for each year of full time employment of 37.5 hours per week, and a pro rated period of years or fractions thereof equal to the percentage that their average actual hours worked per week bears to the average full time employment of 37.5 hours per week multiplied by the number of part time years of employment.

Employees of the City of Newton or the Newton Public Schools who are presently employed for less than an average of 20 hours per week and who have been previously accepted as members of the retirement system may retain their status as members in the system. For such persons, if their entire employment continues to be at less than an average of twenty hours per week, they shall be granted creditable service equal to 12 months for each year of part time employment if and only if their part time employment equals the total number of hours per week prescribed by the City of Newton or Newton Public Schools for that job title or position, as described for category two employees above. For such persons, if they at any time accept employment of at least an average 20 hours per week, then they shall be granted creditable service for such period pro rated for the

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

percentage that these actual work hours of at least an average of 20 hours per week bear to full time status of 37.5 hours per week. For the prior period of employment at less than an average of 20 hours per week, they shall be granted creditable service of a maximum of 6 months for each actual 12 month period of said part time employment.

Notwithstanding the above, those persons who as of May 12, 1987 are employed by the Newton Police Department as both (1) permanent traffic supervisors with permanent school crossing posts and (2) parking control officers (Meter Maids) shall receive creditable service as follows, given their membership in the Newton Retirement system.

Since employment as a permanent traffic supervisor is a pre-condition to appointment as a parking control officer, these persons shall receive 12 months creditable service for each year of prior permanent employment as a traffic supervisor alone, although the hours worked may have been less than 20 per week. Said persons shall also receive 12 months creditable service for each year of permanent employment as both a traffic supervisor and parking control officer. In all cases, the part time employment for each job title must equal the total number of hours per week prescribed by the City of Newton for the job titles of traffic supervisor and parking control officer.

These regulations shall apply to all full time, part time, provisional, temporary and intermittent employees of the City of Newton and the Newton Retirement System as well as those employees who are eligible to join the system in the future. The effective date of these regulations is May 1, 1987.

MEMBERSHIP

Part time, provisional, temporary or intermittent employees who are regularly employed by the City of Newton or Newton Public Schools for an average of a minimum of 20 hours per week are eligible for membership in the retirement system.

December 14, 1984

MEMBERSHIP – Superseded by June 1, 1987 regulation

BUY-BACKS - Back payments must be paid in \$200 installments or more.

CETA employment – Superseded by April 4, 2001 regulation.

ACCIDENTAL DISABILITY APPLICATIONS - Accidental disability applicants must be present when their application is presented to the board, unless a medical reason exists that prevents them from being present, and they must also submit an accident report or reports.

October 14, 2003

Pursuant to the authority vested in the Commission under G.L. c. 7, § 50, the Board's supplementary rule regarding Authorization for Travel and Travel Related Expenses is approved. (This rule is available in its entirety upon written request).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	David C. Wilkinson		
Appointed Member:	Nunzio J. Piselli, Chairperson	Term Expires:	1/1/09
Elected Member:	Francis P. Capello	Term Expires:	12/13/08
Elected Member:	Paul Bianchi	Term Expires:	9/9/10
Appointed Member:	Richard C. Heidlage	Term Expires:	1/1/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$1,000,000 Employee Dishonesty
Elected Member:)	TRAVELERS INSURANCE COMPANY
Appointed Member:)	\$50,000,000 Total Liability
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2007.

The actuarial liability for active members was	\$174,596,731
The actuarial liability for retired members was	<u>227,660,914</u>
The total actuarial liability was	402,257,645
System assets as of that date were	<u>265,700,539</u>
 The unfunded actuarial liability was	 <u>\$136,557,106</u>
The ratio of system's assets to total actuarial liability was	66.1%
As of that date the total covered employee payroll was	\$74,197,265

The normal cost for employees on that date was 8.10% of payroll

The normal cost for the employer was 3.80% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
Rate of Salary Increase: Varies based on job group and calendar year

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$265,700,539	\$402,257,645	\$136,557,106	66.1%	\$74,197,265	184.0%
1/1/2006	\$253,420,995	\$382,732,277	\$129,311,282	66.2%	\$71,278,135	181.4%
1/1/2005	\$244,266,000	\$361,080,000	\$116,814,000	67.6%	\$69,702,000	167.6%
1/1/2004	\$233,888,000	\$350,688,000	\$116,800,000	66.7%	\$68,327,000	170.9%
1/1/2003	\$227,126,000	\$338,172,000	\$111,046,000	67.2%	\$64,636,000	171.8%
1/1/2002	\$228,239,000	\$306,123,000	\$77,884,000	74.6%	\$61,438,000	126.8%
1/1/2001	\$219,102,000	\$268,660,000	\$49,558,000	81.6%	\$60,769,000	81.6%
1/1/2000	\$201,766,000	\$256,096,000	\$54,330,000	78.8%	\$54,975,000	98.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	34	37	35	48	46	49	42	70	30	32
Ordinary Disability	1	1	1	0	2	0	0	1	0	0
Accidental Disability	2	3	1	7	4	8	4	5	4	3
Total Retirements	37	41	37	55	52	57	46	76	34	35
Total Retirees, Beneficiaries and Survivors	1,267	1,279	1,260	1,272	1,272	1,292	1,304	1,346	1,329	1,327
Total Active Members	1,586	1,500	1,721	1,641	1,706	1,743	1,763	1,782	1,681	1,778
Pension Payments										
Superannuation	\$8,632,691	\$9,000,093	\$9,638,881	\$10,300,223	\$11,230,865	\$11,950,713	\$12,970,799	\$14,129,222	\$14,927,904	\$15,403,671
Survivor/Beneficiary										
Payments	1,129,242	1,234,250	1,285,014	1,327,240	1,517,092	1,490,474	1,545,440	1,594,376	1,601,629	1,587,232
Ordinary Disability	149,807	140,304	132,180	135,706	165,716	170,776	174,913	183,593	183,984	185,129
Accidental Disability	2,633,353	2,671,114	2,780,622	2,955,226	3,003,708	3,211,393	3,435,068	3,768,145	4,211,838	3,976,038
Other	1,552,661	1,561,948	1,551,680	1,605,290	1,723,405	1,751,056	1,757,156	1,762,447	1,834,874	1,910,222
Total Payments for Year	<u>\$14,097,754</u>	<u>\$14,607,709</u>	<u>\$15,388,377</u>	<u>\$16,323,685</u>	<u>\$17,640,786</u>	<u>\$18,574,412</u>	<u>\$19,883,376</u>	<u>\$21,437,783</u>	<u>\$22,760,228</u>	<u>\$23,062,292</u>

PERAC

Five Middlesex Avenue | Suite 304

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac